

The Process of Circulation of Capital

Capital Volume 2, Part 1, extracts:

“So long as the product is sold, everything is taking its regular course from the standpoint of the capitalist producer. The circuit of capital-value he is identified with is not interrupted. And if this process is expanded — which includes increased productive consumption of the means of production — this reproduction of capital may be accompanied by increased individual consumption (hence demand) on the part of the labourers, since this process is initiated and effected by productive consumption. Thus the production of surplus-value, and with it the individual consumption of the capitalist, may increase, the entire process of reproduction may be in a flourishing condition, and yet a large part of the commodities may have entered into consumption only apparently, while in reality they may still remain unsold in the hands of dealers, may in fact still be lying in the market. Now one stream of commodities follows another, and finally it is discovered that the previous streams had been absorbed only apparently by consumption. The commodity-capitals compete with one another for a place in the market. Late-comers, to sell at all, sell at lower prices. The former streams have not yet been disposed of when payment for them falls due. Their owners must declare their insolvency or sell at any price to meet their obligations. This sale has nothing whatever to do with the actual state of the demand. It only concerns the demand for payment, the pressing necessity of transforming commodities into money. Then a crisis breaks out. It becomes visible not in the direct decrease of consumer demand, the demand for individual consumption, but in the decrease of exchanges of capital for capital, of the reproductive process of capital.”

...

“Hence the accumulation of money, hoarding, appears here as a process by which real accumulation, the extension of the scale on which industrial capital operates, is temporarily accompanied. Temporarily, for so long as the hoard remains in the condition of a hoard, it does not function as capital, does not take part in the process of creating surplus-value, remains a sum of money which grows only because money, come by without its doing anything, is thrown in the same coffer.”

...

“To the capitalist who has others working for him, buying and selling becomes a primary function. Since he appropriates the product of many on a large social scale,

he must sell it on the same scale and then reconvert it from money into elements of production. Now as before neither the time of purchase nor of sale creates any value. **The function of merchant's capital gives rise to an illusion.**"

From Capital Volume 2, Part 3, extracts:

"The direct process of the production of capital is its labour and self-expansion process, the process whose result is the commodity-product and whose compelling motive is the production of surplus-value."

...

"In Book I the process of capitalist production was analysed as an individual act as well as a process of reproduction: the production of surplus-value and the production of capital itself. The only act within the sphere of circulation on which we have dwelt was the purchase and sale of labour-power as the fundamental condition of capitalist production."

"In the first part of this Book II, the various forms were considered which capital assumes its circular movement, and the various forms of this movement itself. The circulation time must now be added to the working times discussed in Book I."

"In the second Part, the circuit was studied as being periodic, i.e., as a turnover."

"...Especially money-capital came forward with distinctive features not shown in Book I. Certain laws were found according to which diverse large components of a given capital must be continually advanced and renewed — depending on the conditions of the turnover — in the form of money-capital in order to keep a productive capital of a given size constantly functioning."

"But in both the first and the second Parts it was always only a question of some individual capital, of the movement of some individualised part of social capital."

"However the circuits of the individual capitals intertwine, presuppose and necessitate one another, and form, precisely in this interlacing, the movement of the total social capital."

"We have now to study the process of circulation (which in its entirety is a form of the process of reproduction) of the individual capitals as components of the aggregate social capital, that is to say, the process of circulation of this aggregate social capital."

...

“The total product, and therefore the total production, of society may be divided into two major departments:

*“I. **Means of Production**, commodities having a form in which they must, or at least may, pass into productive consumption.*

*“II. **Articles of Consumption**, commodities having a form in which they pass into the individual consumption of the capitalist and the working-class.*

“All the various branches of production pertaining to each of these two departments form one single great branch of production, that of the means of production in the one case, and that of articles of consumption in the other. The aggregate capital employed in each of these two branches of production constitutes a separate large department of the social capital.

“In each department the capital consists of two parts:

*“1) **Variable Capital**. This capital, so far as its value is concerned, is equal to the value of the social labour-power employed in this branch of production; in other words, it is equal to the sum of the wages paid for this labour-power. So far as its substance is concerned, it consists of the labour-power in action, i.e., of the living labour set in motion by this capital-value.*

*“2) **Constant Capital**. This is the value of all the means of production employed for productive purposes in this branch. These, again, are divided into fixed capital, such as machines, instruments of labour, buildings, labouring animals, etc., and circulating constant capital, such as materials of production: raw and auxiliary materials, semi-finished products, etc.*

*“The value of the total annual product created with the aid of this capital in each of the two departments consists of one portion which represents the constant capital **c** consumed in the process of production and only transferred to the product in accordance with its value, and of another portion added by the entire labour of the year. This latter portion is divided in turn into the replacement of the advanced variable capital **v** and the excess over and above it, which forms the surplus-value **s**. And just as the value of every individual commodity, that of the entire annual product of each department consists of **c + v + s**.”*

The Process of Capitalist Production as a Whole

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Part III

The Law of the Tendency of the Rate of Profit to Fall

Chapter 13. The Law As Such

Assuming a given wage and working-day, a variable capital, for instance of 100, represents a certain number of employed labourers. It is the index of this number. Suppose £100 are the wages of 100 labourers for, say, one week. If these labourers perform equal amounts of necessary and surplus-labour, if they work daily as many hours for themselves, *i.e.*, for the reproduction of their wage, as they do for the capitalist, *i.e.*, for the production of surplus-value, then the value of their total product = £200, and the surplus-value they produce would amount to £100. The rate of surplus-value, s/v , would = 100%. But, as we have seen, this rate of surplus-value would nonetheless express itself in very different rates of profit, depending on the different volumes of constant capital c and consequently of the total capital C , because the rate of profit = s/C . The rate of surplus-value is 100%:

If $c = 50$, and $v = 100$, then $p' = 100/150 = 66\frac{2}{3}\%$;
 $c = 100$, and $v = 100$, then $p' = 100/200 = 50\%$;
 $c = 200$, and $v = 100$, then $p' = 100/300 = 33\frac{1}{3}\%$;
 $c = 300$, and $v = 100$, then $p' = 100/400 = 25\%$;
 $c = 400$, and $v = 100$, then $p' = 100/500 = 20\%$.

This is how the same rate of surplus-value would express itself under the same degree of labour exploitation in a falling rate of profit, because the material growth of the constant capital implies also a growth — albeit not in the same proportion — in its value, and consequently in that of the total capital.

If it is further assumed that this gradual change in the composition of capital is not confined only to individual spheres of production, but that it occurs more or less in all, or at least in the key spheres of production, so that it involves changes in the average organic composition of the total capital of a certain society, then the gradual growth of constant capital in relation to variable capital must necessarily lead to *a gradual fall of the general rate of profit*, so long as the rate of surplus-value, or the intensity of exploitation of labour by capital, remain the same. Now we have seen that it is a law of capitalist production that its development is attended by a relative decrease of variable in relation to constant capital, and consequently to the total capital set in motion. This is just another way of saying that owing to the distinctive methods of production developing in the capitalist system the same number of labourers, *i.e.*, the same quantity of labour-power set in motion by a variable capital of a given value, operate, work up and productively consume in the same time span an ever-increasing quantity of means of labour, machinery and fixed capital of all sorts, raw and auxiliary materials-and consequently a constant capital of an ever-increasing value. This continual relative decrease of the variable capital vis-a-vis the constant, and consequently the total capital, is identical with the progressively higher organic composition of the social capital in its average. It is likewise just another expression for the progressive development of the social productivity of labour, which is demonstrated precisely by the fact that the same number of labourers, in the same time, *i.e.*, with less labour, convert an ever-increasing quantity of raw and auxiliary materials into products, thanks to the growing application of machinery and fixed capital in general. To this growing quantity of value of the constant capital — although indicating the growth of the real mass of use-values of which the constant capital materially consists only approximately — corresponds a progressive cheapening of products. Every individual product, considered by itself, contains a smaller quantity of labour than it did on a lower level of production, where the capital invested in wages occupies a far greater place compared to the capital invested in means of production. The hypothetical series drawn up at the beginning of this chapter expresses, therefore, the actual tendency of capitalist production. This mode of production produces a progressive relative decrease of the variable capital as compared to the constant capital, and consequently a continuously rising organic composition of the total capital. The immediate result of this is that the rate of surplus-value, at the same, or even a rising, degree of labour exploitation, is represented by a continually falling general rate of profit. (We shall see later [Present edition: Ch. XIV. — *Ed.*] why this fall does not manifest itself in an absolute form, but rather as a tendency toward a progressive fall.) The progressive tendency of the general rate of profit to fall is, therefore, just *an expression peculiar to the capitalist mode of production* of the progressive development of the social productivity of labour. This does not mean to say that the rate of profit may not fall temporarily for other reasons. But proceeding from the nature of the capitalist mode of production, it is thereby proved logical necessity that in its development the general average rate of surplus-value must express itself in a falling general rate of profit. Since the mass of the employed living

labour is continually on the decline as compared to the mass of materialised labour set in motion by it, *i.e.*, to the productively consumed means of production, it follows that the portion of living labour, unpaid and congealed in surplus-value, must also be continually on the decrease compared to the amount of value represented by the invested total capital. Since the ratio of the mass of surplus-value to the value of the invested total capital forms the rate of profit, this rate must constantly fall.

Simple as this law appears from the foregoing statements, all of political economy has so far had little success in discovering it, as we shall see in a later part. [K. Marx, *Theorien über den Mehrwert*. K. Marx/F. Engels, *Werke*, Band 26, Teil 2, S. 435-66, 541-43. — *Ed.*] The economists perceived the phenomenon and cudgelled their brains in tortuous attempts to interpret it. Since this law is of great importance to capitalist production, it may be said to be a mystery whose solution has been the goal of all political economy since Adam Smith, the difference between the various schools since Adam Smith having been in the divergent approaches to a solution. When we consider, on the other hand, that up to the present political economy has been running in circles round the distinction between constant and variable capital, but has never known how to define it accurately; that it has never separated surplus-value from profit, and never even considered profit in its pure form as distinct from its different, independent components, such as industrial profit, commercial profit, interest, and ground-rent; that it has never thoroughly analysed the differences in the organic composition of capital, and, for this reason, has never thought of analysing the formation of the general rate of profit — if we consider all this, the failure to solve this riddle is no longer surprising.

We intentionally present this law before going on to the division of profit into different independent categories. The fact that this analysis is made independently of the division of profit into different parts, which fall to the share of different categories of people, shows from the outset that this law is, in its entirety, independent of this division, and just as independent of the mutual relations of the resultant categories of profit. The profit to which we are here referring is but another name for surplus-value itself, which is presented only in its relation to total capital rather than to variable capital, from which it arises. The drop in the rate of profit, therefore, expresses the falling relation of surplus-value to advanced total capital, and is for this reason independent of any division whatsoever of this surplus-value among the various categories.

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The law of the falling rate of profit, which expresses the same, or even a higher, rate of surplus-value, states, in other words, that any quantity of the average social capital, say, a capital of 100, comprises an ever larger portion or means of labour, and an ever smaller portion of living labour. Therefore, since the aggregate mass of

living labour operating the means of production decreases in relation to the value of these means of production, it follows that the unpaid labour and the portion of value in which it is expressed must decline as compared to the value of the advanced total capital. Or: An ever smaller aliquot part of invested total capital is converted into living labour, and this total capital, therefore, absorbs in proportion to its magnitude less and less surplus-labour, although the unpaid part of the labour applied may at the same time grow in relation to the paid part. The relative decrease of the variable and increase of the constant capital, however much both parts may grow in absolute magnitude, is, as we have said, but another expression for greater productivity of labour.

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The law of the progressive falling of the rate of profit, or the relative decline of appropriated surplus-labour compared to the mass of materialised labour set in motion by living labour, does not rule out in any way that the absolute mass of exploited labour set in motion by the social capital, and consequently the absolute mass of the surplus-labour it appropriates, may grow; nor, that the capitals controlled by individual capitalists may dispose of a growing mass of labour and, hence, of surplus-labour, the latter even though the number of labourers they employ does not increase.

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Essentially, the capitalist process of production is simultaneously a process of accumulation. We have shown that with the development of capitalist production the mass of values to be simply reproduced, or maintained, increases as the productivity of labour grows, even if the labour-power employed should remain constant. But with the development of social productivity of labour the mass of produced use-values, of which the means of production form a part, grows still more. And the additional labour, through whose appropriation this additional wealth can be reconverted into capital, does not depend on the value, but on the mass of these means of production (including means of subsistence), because in the production process the labourers have nothing to do with the value, but with the use-value, of the means of production. Accumulation itself, however, and the concentration of capital that goes with it, is a material means of increasing productiveness. Now, this growth of the means of production includes the growth of the working population, the creation of a working population, which corresponds to the surplus-capital, or even exceeds its general requirements, thus leading to an over-population of workers. A momentary excess of surplus-capital over the working population it has commandeered, would have a two-fold effect. It could, on the one hand, by raising wages, mitigate the adverse conditions which decimate the offspring of the labourers and would make marriages easier among them, so as gradually to increase the population. On the other hand, by applying methods

which yield relative surplus-value (introduction and improvement of machinery) it would produce a far more rapid, artificial, relative over-population, which in its turn, would be a breeding-ground for a really swift propagation of the population, since under capitalist production misery produces population. It therefore follows of itself from the nature of the capitalist process of accumulation, which is but one facet of the capitalist production process, that the increased mass of means of production that is to be converted into capital always finds a correspondingly increased, even excessive, exploitable worker population. As the process of production and accumulation advances therefore, the mass of available and appropriated surplus-labour, and hence the absolute mass of profit appropriated by the social capital, *must* grow. Along with the volume, however, the same laws of production and accumulation increase also the value of the constant capital in a mounting progression more rapidly than that of the variable part of capital, invested as it is in living labour. Hence, the same laws produce for the social capital a growing absolute mass of profit, and a falling rate of profit.

We shall entirely ignore here that with the advance of capitalist production and the attendant development of the productiveness of social labour and multiplication of production branches, hence products, the same amount of value represents a progressively increasing mass of use-values and enjoyments.

The development of capitalist production and accumulation lifts labour-processes to an increasingly enlarged scale and thus imparts to them ever greater dimensions, and involves accordingly larger investments of capital for each individual establishment. A mounting concentration of capitals (accompanied, though on a smaller scale, by an increase in the number of capitalists) is, therefore, one of its material requirements as well as one of its results. Hand in hand with it, mutually interacting, there occurs a progressive expropriation of the more or less direct producers. It is, then, natural for the individual capitalists to command increasingly large armies of labourers (no matter how much the variable capital may decrease in relation to the constant), and natural, too, that the mass of surplus-value, and hence profit, appropriated by them, should grow simultaneously with, and in spite of, the fall in the rate of profit. The causes which concentrate masses of labourers under the command of individual capitalists, are the very same that swell the mass of the invested fixed capital, and auxiliary and raw materials, in mounting proportion as compared to the mass of employed living labour.

It requires no more than a passing remark at this point to indicate that, given a certain labouring population, the mass of surplus-value, hence the absolute mass of profit, must grow if the rate of surplus-value increases, be it through a lengthening or intensification of the working-day, or through a drop in the value of wages due to an increase in the productiveness of labour, and that it must do so in spite of the relative decrease of variable capital in respect to constant.

The same development of the productiveness of social labour, the same laws which express themselves in a relative decrease of variable as compared to total capital, and in the thereby facilitated accumulation, while this accumulation in its turn becomes a starting-point for the further development of the productiveness and for a further relative decrease of variable capital — this same development manifests itself, aside from temporary fluctuations, in a progressive increase of the total employed labour-power and a progressive increase of the absolute mass of surplus-value, and hence of profit.

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We again meet here the previously defined law that the relative decrease of the variable capital, hence the development of the social productiveness of labour, involves an increasingly large mass of total capital to set in motion the same quantity of labour-power and squeeze out the same quantity of surplus-labour. Consequently, the possibility of a relative surplus of labouring people develops proportionately to the advances made by capitalist production not because the productiveness of social labour *decreases*, but because it *increases*. It does not therefore arise out of an absolute disproportion between labour and the means of subsistence, or the means for the production of these means of subsistence, but out of a disproportion occasioned by capitalist exploitation of labour, a disproportion between the progressive growth of capital and its relatively shrinking need for an increasing population.

[redacted]

Even if the exploited mass of the working population were to remain constant, and only the length and intensity of the working-day were to increase, the mass of the invested capital would have to increase, since it would have to be greater in order to employ the same mass of labour under the old conditions of exploitation after the composition of capital changes.

Thus, the same development of the social productiveness of labour expresses itself with the progress of capitalist production on the one hand in a tendency of the rate of profit to fall progressively and, on the other, in a progressive growth of the absolute mass of the appropriated surplus-value, or profit; so that on the whole a relative decrease of variable capital and profit is accompanied by an absolute increase of both. This two-fold effect, as we have seen, can express itself only in a growth of the total capital at a pace more rapid than that at which the rate of profit falls. For an absolutely increased variable capital to be employed in a capital of higher composition, or one in which the constant capital has increased relatively more, the total capital must not only grow proportionately to its higher composition, but still more rapidly. It follows, then, that as the capitalist mode of production develops, an ever larger quantity of capital is required to employ the

same, let alone an increased, amount of labour-power. Thus, on a capitalist foundation, the increasing productiveness of labour necessarily and permanently creates a seeming over-population of labouring people. If the variable capital forms just 1/6 of the total capital instead of the former, the total capital must be trebled to employ the same amount of labour-power. And if twice as much labour-power is to be employed, the total capital must increase six-fold.

Political economy, which has until now been unable to explain the law of the tendency of the rate of profit to fall, pointed self-consoling to the increasing mass of profit, *i.e.*, to the growth of the absolute magnitude of profit, be it for the individual capitalist or for the social capital, but this was also based on mere platitude and speculation.

To say that the mass of profit is determined by two factors — first, the rate of profit, and, secondly, the mass of capital invested at this rate, is mere tautology. It is therefore but a corollary of this tautology to say that there is a possibility for the mass of profit to grow even though the rate of profit may fall at the same time. It does not help us one step farther, since it is just as possible for the capital to increase without the mass of profit growing, and for it to increase even while the mass of profit falls. For 100 at 25% yields 25, and 400 at 5% yields only 20.^[1] But if the same causes which make the rate of profit fall, entail the accumulation, *i.e.*, the formation, of additional capital, and if each additional capital employs additional labour and produces additional surplus-value; if, on the other hand, the mere fall in the rate of profit implies that the constant capital, and with it the total old capital, have increased, then this process ceases to be mysterious. We shall see later [K. Marx, *Theorien ber den Mehrwert*. K. Marx/F. Engels, *Werk*,, Band 26, Teil 2., S. 435-66, 541- 43. — Ed] to what deliberate falsifications some people resort in their calculations to spirit away the possibility of an increase in the mass of profit simultaneous with a decrease in the rate of profit.

We have shown how the same causes that bring about a tendency for the general rate of profit to fall necessitate an accelerated accumulation of capital and, consequently, an increase in the absolute magnitude, or total mass, of the surplus-labour (surplus-value, profit) appropriated by it. Just as everything appears reversed in competition, and thus in the consciousness of the agents of competition, so also this law, this inner and necessary connection between two seeming contradictions. It is evident that within the proportions indicated above a capitalist disposing of a large capital will receive a larger mass of profit than a small capitalist making seemingly high profits. Even a cursory examination of competition shows, furthermore, that under certain circumstances, when the greater capitalist wishes to make room for himself on the market, and to crowd out the smaller ones, as happens in times of crises, he makes practical use of this, *i.e.*, he deliberately lowers his rate of profit in order to drive the smaller ones to the wall. Merchants capital, which we shall describe in detail later, also notably exhibits phenomena which

appear to attribute a fall in profit to an expansion of business, and thus of capital. The scientific expression for this false conception will be given later. Similar superficial observations result from a comparison of rates of profit in individual lines of business, distinguished either as subject to free competition, or to monopoly. The utterly shallow conception existing in the minds of the agents of competition is found in Roscher, namely, that a reduction in the rate of profit is "more prudent and humane". [Roscher, *Die Grundlage der Nationalökonomie*, 3 Auflage, 1858, 108, S. 192. — *Ed.*] The fall in the rate of profit appears in this case as an *effect* of an increase in capital and of the concomitant calculation of the capitalist that the mass of profits pocketed by him will be greater at a smaller rate of profit. This entire conception (with the exception of Adam Smith's, which we shall mention later) [K. Marx, *Theorien über den Mehrwert*. K. Marx/F. Engels, *Werke*, Band 26, Teil 2, S. 214-28. — *Ed.*] rests on an utter misapprehension of what the general rate of profit is, and on the crude notion that prices are actually determined by adding a more or less arbitrary quota of profit to the true value of commodities. Crude as these ideas are, they arise necessarily out of the inverted aspect which the immanent laws of capitalist production represent in competition.

The law that a fall in the rate of profit due to the development of productiveness is accompanied by an increase in the mass of profit, also expresses itself in the fact that a fall in the price of commodities produced by a capital is accompanied by a relative increase of the masses of profit contained in them and realised by their sale...

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The phenomenon, springing from the nature of the capitalist mode of production, that increasing productivity of labour implies a drop in the price of the individual commodity, or of a certain mass of commodities, an increase in the number of commodities, a reduction in the mass of profit on the individual commodity and in the rate of profit on the aggregate of commodities, and an increase in the mass of profit on the total quantity of commodities — this phenomenon appears on the surface only in a reduction of the mass of profit on the individual commodity, a fall in its price, an increase in the mass of profit on the augmented total number of commodities produced by the total social capital or an individual capitalist. It then appears as if the capitalist adds less profit to the price of the individual commodity of his own free will, and makes up for it through the greater number of commodities he produces. This conception rests upon the notion of profit upon alienation, which, in its turn, is deduced from the conception of merchant capital.

We have previously seen in Book I (4 and 7 Abschnitt) [English edition: Parts IV and VII. — *Ed.*] that the mass of commodities growing along with the productivity of labour and the cheapening of the individual commodity as such (as long as these commodities do not enter the price of labour-power as determinants) — that this

does not affect the proportion between paid and unpaid labour in the individual commodity. in spite of the falling price.

Since all things appear distorted, namely, reversed in competition, the individual capitalist may imagine: 1) that he is reducing his profit on the individual commodity by cutting its price, but still making a greater profit by selling a larger quantity of commodities; 2) that he fixes the price of the individual commodities and that he determines the price of the total product by multiplication, while the original process is really one of division (see Book I, Kap. X, S. 281 [English edition: Ch. XII. — *Ed*]), and multiplication is only correct secondarily, since it is based on that division. The vulgar economist does practically no more than translate the singular concepts of the capitalists, who are in the thrall of competition, into a seemingly more theoretical and generalised language, and attempt to substantiate the justice of those conceptions.

The fall in commodity-prices and the rise in the mass of profit on the augmented mass of these cheapened commodities is, in fact, but another expression for the law of the falling rate of profit attended by a simultaneously increasing mass of profit.

The analysis of how far a falling rate of profit may coincide with rising prices no more belongs here than that of the point previously discussed in Book I (S. 280-81 [English edition: Ch. XII. — *Ed*.]), concerning relative surplus-value. A capitalist working with improved but not as yet generally adopted methods of production sells below the market-price, but above his individual price of production;. His rate of profit rises until competition levels it out. During this equalisation period the second requisite, expansion of the invested capital, makes its appearance. According to the degree of this expansion the capitalist will be able to employ a part of his former labourers, actually perhaps all of them, or even more, under the new conditions, and hence to produce the same, or a greater, mass of profit.

From: <http://www.marxists.org/archive/marx/works/1894-c3/ch13.htm>

Part IV

Conversion of Commodity-Capital and Money-Capital into Commercial Capital and Money-Dealing Capital (Merchant's Capital)

Chapter 19. Money-Dealing Capital

The purely technical movements performed by money in the circulation process of industrial, and, as we may now add, of commercial capital (since it takes over a part of the circulation movement of industrial capital as its own, peculiar movement), if individualised as a function of some particular capital performing just these, and only these, operations as its specific operations, convert this capital into money-dealing capital. A portion of industrial capital, and, more precisely, also of commercial capital, not only obtains all the time in the form of money, as money-capital in general, but as money-capital engaged precisely in these technical functions. A definite part of the total capital dissociates itself from the rest and stands apart in the form of money-capital, whose capitalist function consists exclusively in performing these operations for the entire class of industrial and commercial capitalists. As in the case of commercial capital, a portion of industrial capital engaged in the circulation process in the form of money-capital separates from the rest and performs these operations of the reproduction process for all the other capital. The movements of this money-capital are, therefore, once more merely movements of an individualised part of industrial capital engaged in the reproduction process.

It is only when, and in so far as, capital is newly invested — which also applies to accumulation — that capital in money-form appears as the starting-point and the end result of the movement. But for all capitals already engaged in the process, these first and last points appear merely as points of transit. Since, as already seen in the case of simple commodity-circulation, from the moment of leaving the sphere of production to the moment of its re-entry industrial capital undergoes the metamorphosis $C' - M - C$, M in fact represents the end result of one phase of the metamorphosis, just to become the starting-point of the reverse phase, which supplements it. And although the $C - M$ of industrial capital is always $M - C - M$ for merchant's capital, the actual process for the latter is continually also $C - M - C$ once it has begun to function. But it performs the acts $C - M$ and $M - C$ simultaneously. This is to say that there is not just *one* capital in the stage $C - M$ while another is in the stage $M - C$, but that the same capital buys continually and sells continually at one and the same time because of the continuity of the production process. It is to be found always in both stages at one and the same

time. While one of its parts turns into money, later to be reconverted into commodities, another turns simultaneously into commodities, to be reconverted into money.

It all depends on the form of the commodity exchange whether the money serves here as a means of circulation or of payment. In both cases the capitalist has to pay out money constantly to many persons, and to receive money continually from many persons. This purely technical operation of disbursing and receiving money is in itself labour which, as long as the money serves as a means of payment, necessitates drawing up payment balances and acts of balancing accounts. This labour is a cost of circulation, *i.e.*, not labour creating value. It is shortened in being carried out by a special section of agents, or capitalists, for the rest of the capitalist class.

A definite portion of the capital must be on hand constantly as a hoard, as potential money-capital — a reserve of means of purchase, a reserve of means of payment, and idle capital in the form of money waiting to be put to work. Another portion streams back continually in this form. Aside from collecting, paying, and book-keeping, this entails safekeeping the hoard, which is an operation all in itself. It is, indeed, a continuous conversion of the hoard into means of circulation and means of payment, and its restoration by means of money secured through sales and from payments due. This constant movement of the part of capital existing as money, dissociated from the function of capital itself, this purely technical function, causes its own labour and expense, classified as costs of circulation.

The division of labour brings it about that these technical operations, dependent upon the functions of capital, should be performed for the entire capitalist class as much as possible by a special section of agents or capitalists as their exclusive function — or that these operations should be concentrated in their hands. We have here, as in merchant's capital, division of labour in a two-fold sense. It becomes a specialised business, and because performed as a specialised business for the money-mechanism of the whole class, it is concentrated and conducted on a large scale. A further division of labour takes place within it, both through division into various independent branches, and through segmentation of work within these branches (large offices, numerous book-keepers and cashiers, and far-reaching division of labour). Paying and receiving money, settling accounts, keeping current accounts, storing money, etc. — all this, dissociated from the acts necessitating these technical operations, makes money-dealing capital of the capital advanced for these functions.

The various operations, whose individualisation into specific businesses gives rise to the money trade, spring from the different purposes of money itself and from its functions, which capital in its money-form must therefore likewise carry out.

I have pointed out earlier that finance developed originally from the exchange of products between different communities.^[1]

Trading in money, commerce in the money-commodity, first developed therefore out of international commerce. Ever since different national coins have existed merchants buying in foreign countries have had to exchange their national coins for local coins, and vice versa, or to exchange different coins for uncoined pure silver or gold — the world-money. Hence the exchange business which is to be regarded as one of the natural foundations of modern finance.^[2] Out of it developed banks of exchange, in which silver (or gold) serves as world-money — now called bank money or commercial money — as distinct from currency. Exchange transactions, in the sense of mere notes of payment to travellers from a money-changer in one country to a changer in another country, developed back in Rome and Greece out of the actual money-changing.

Trading in gold and silver as commodities (raw materials for the making of luxury articles) is the natural basis of the bullion trade, or the trade which acts as a medium for the functions of money as universal money. These functions, as previously explained (Buch I, Kap. III, 3, c [English edition: Ch. III, 3, c. — *Ed.*]), are two-fold: currency movement back and forth between the various national spheres of circulation in order to balance international payments and in connection with the migrations of capital in quest of interest; simultaneously, flow of precious metals from their sources of production via the world-market and their distribution among the various national spheres of circulation. Goldsmiths acted as bankers still during the greater part of the 17th century in England. We shall completely disregard the way in which the balancing of international accounts developed further in the bill jobbing, etc., and everything referring to transactions in valuable papers; in short, we shall leave out of consideration all special forms of the credit system, which do not as yet concern us here.

National money discards its local character in the capacity of universal money; one national currency is expressed in another, and thus all of them are finally reduced to their content of gold or silver, while the latter, being the two commodities circulating as world-money, are simultaneously reduced to their reciprocal value-ratio, which changes continually. It is this intermediate operation which the money trader makes his special occupation. Money-changing and the bullion trade are thus the original forms of the money trade, and spring from the two-fold functions of money-as national money and world-money.

The capitalist process of production, just as commerce in general, even under pre-capitalist methods, imply:

First, the accumulation of money as a hoard, *i.e.*, here as that part of capital which must always be on hand in the form of money as a reserve fund of means of

payment and purchase. This is the first form of a hoard, as it reappears under the capitalist mode of production, and as it appears generally with the development of merchant's capital, at least for the purposes of this capital. Both remarks apply to national, as well as international, circulation. The hoard is in continuous flux, pours ceaselessly into circulation, and returns ceaselessly from it. The second form of a hoard is that of idle, temporarily unemployed capital in the shape of money, including newly accumulated and not yet invested money-capital. The functions entailed by this formation of a hoard are primarily those of safekeeping, bookkeeping, etc.

Secondly, however, this involves outlays of money for purchases, collecting money from sales, making and receiving payments, balancing payments, etc. The money-dealer performs all these services at first as a simple *cashier* of the merchants and industrial capitalists." ^[3]

The money trade becomes fully developed, even in its first stages, as soon as its ordinary functions are supplemented by lending and borrowing and by credit. Of this more in the next part, which deals with interest-bearing capital.

The bullion trade itself, the transfer of gold or silver from one country to another, is merely the result of trading in commodities. It is determined by the rate of exchange which expresses the standing of international payments and the interest rates in the different markets. The bullion trader as such acts merely as an intermediary of the results.

In discussing money and the way its movements and forms develop out of simple commodity-circulation, we saw (Book 1 Ch. III) that the movements of the mass of money circulating as means of purchase and payment depend on the metamorphosis of commodities, on the volume and velocity of this metamorphosis, which we now know to be but a phase in the entire process of reproduction. As for securing the money materials — gold and silver — from their sources of production, this resolves itself into a direct exchange of commodities, an exchange of gold and silver as commodities for other commodities. Hence, it is itself as much a phase of the exchange of commodities as the securing of iron or other metals. However, so far as the movement of precious metals on the world-market is concerned (we here leave aside movements expressing the transfer of capital by loans — a type of transfer which also obtains in the shape of commodity-capital), it is quite as much determined by the international exchange of commodities as the movement of money as a national means of purchase and payment is determined by the exchange of commodities in the home market. The inflow and outflow of precious metals from one national sphere of circulation to another, inasmuch as this is caused merely by a depreciation of the national currency, or by a double standard, are alien to money circulation as such and merely represent corrections of deviations brought about arbitrarily by state decrees. Finally, as concerns the

formations of hoards which constitute reserve funds for means of purchase and payment, be it for home or foreign trade, and which also merely represent a form of temporarily idle capital, they are in both cases necessary precipitates of the circulation process.

If the entire circulation of money is in volume, form and movement purely a result of commodity-circulation, which, in its turn, from the capitalist point of view, is only the circulation process of capital (also embracing the exchange of capital for revenue, and of revenue for revenue, so far as outlay of revenue is effected through retail trade), it is self-evident that dealing in money does not merely promote the circulation of money, a mere result and phenomenon of commodity-circulation. This circulation of money itself, a phase in commodity-circulation, is taken for granted in money-dealing. What the latter promotes is merely the technical operations of money circulation which it concentrates, shortens, and simplifies. Dealing in money does not form the hoards. It provides the technical means by which the formation of hoards may, so far as it is voluntary (hence, not an expression of unemployed capital or of disturbances in the reproduction process), be reduced to its economic minimum because, if managed for the capitalist class as a whole, the reserve funds of means of purchase and payment need not be as large as they would have to be if each capitalist were to manage his own. The money-dealers do not buy the precious metals. They merely handle their distribution as soon as the commodity trade has bought them. They facilitate the settling of balances, inasmuch as money serves as the means of payment, and reduce through the artificial mechanism of these settlements the amount of money required for this purpose. But they do not determine either the connections, or the volume, of the mutual payments. The bills of exchange and the cheques, for instance, which are exchanged for one another in banks and clearing houses, represent quite independent transactions and are the results of given operations, and it is merely a question of a better technical settlement of these results. So far as money circulates as a means of purchase, the volume and number of purchases and sales have no connection whatever with money-dealing. The latter can do no more than shorten the technical operations that go with buying and selling, and thus reduce the amount of cash money required to turn over the commodities.

Money-dealing in its pure form, which we consider here, *i.e.*, set apart from the credit system, is thus concerned only with the technique of a certain phase of commodity-circulation, namely, that of money circulation and the different functions of money arising in its circulation.

This substantially distinguishes dealing in money from the dealing in commodities, which promotes the metamorphosis of commodities and their exchange, or even gives this process of the commodity-capital the appearance of a process of a capital set apart from industrial capital. While, therefore, commercial capital has its own form of circulation, $M - C - M$, in which the commodity changes hands twice and

thus provides a reflux of money, as distinct from $C — M — C$, in which money changes hands twice and thus promotes commodity exchange, there is no such special form in the case of money-dealing capital.

In so far as money-capital is advanced by a separate class of capitalists in this technical promotion of money circulation — a capital which on a reduced scale represents the additional capital the merchants and industrial capitalists would otherwise have to advance themselves for these purposes-the general form of capital, $M — M'$, occurs here as well. By advancing M , the advancing capitalist secures $M + \Delta M$. But promotion of $M — M'$ does not here concern the material, but only the technical, processes of the metamorphosis.

It is evident that the mass of money-capital with which the money-dealers operate is the money-capital of merchants and industrial capitalists in the process of circulation, and that the money-dealers' operations are actually operations of merchants and industrial capitalists, in which they act as middlemen.

It is equally evident that the money-dealers' profit is nothing but a deduction from the surplus-value, since they operate with already realised values (even when realised in the form of creditors' claims).

Just as in the commodity trade, there is a duplication of functions, because a part of the technical operations connected with money circulation must be carried out by the dealers and producers of commodities themselves.

From: <http://www.marxists.org/archive/marx/works/1894-c3/ch19.htm>

Division of Profit into Interest and Profit of Enterprise. Interest-Bearing Capital

Chapter 29. Component Parts of Bank Capital

It is now necessary to examine the component parts of bank capital in greater detail.

We have just seen that Fullarton and others transform the distinction between money as a medium of circulation and money as a means of payment — also universal money in so far as it concerns a drain of gold — into a distinction between currency and capital.

The peculiar role played by capital in this instance is the reason why bankers' economics teaches that money is indeed capital *par excellence* as insistently as enlightened economics taught that money is not capital.

In subsequent analyses, we shall demonstrate that money-capital is being confused here with moneyed capital in the sense of interest-bearing capital, while in the former sense, money-capital is always merely a transient form of capital — in contradistinction to the other forms of capital, namely, commodity-capital and productive capital.

Bank capital consists of 1) cash money, gold or notes; 2) securities. The latter can be subdivided into two parts: commercial paper or bills of exchange, which run for a period, become due from time to time, and whose discounting constitutes the essential business of the banker; and public securities, such as government bonds, treasury notes, stocks of all kinds, in short, interest-bearing paper which is however significantly different from bills of exchange. Mortgages may also be included here. The capital composed of these tangible component parts can again be divided into the banker's invested capital and into deposits, which constitute his banking capital, or borrowed capital. In the case of banks which issue notes, these must be included. We shall leave the deposits and notes out of consideration for the present. It is evident at any rate that the actual component parts of the banker's capital (money, bills of exchange, deposit currency) remain unaffected whether the various elements represent the banker's own capital or deposits, *i.e.*, the capital of other people. The same division would remain, whether he were to carry on his business with only his own capital or only with deposited capital.

The form of interest-bearing capital is responsible for the fact that every definite and regular money revenue appears as interest on some capital, whether it arises from some capital or not. The money income is first converted into interest, and from the interest one can determine the capital from which it arises. In like manner, in the case of interest-bearing capital, every sum of value appears as capital as long as it is not expended as revenue; that is, it appears as principal in contrast to possible or actual interest which it may yield.

The matter is simple. Let the average rate of interest be 5% annually. A sum of £500 would then yield £25 annually if converted into interest-bearing capital. Every fixed annual income of £25 may then be considered as interest on a capital of £500. This, however, is and remains a purely illusory conception, except in the case where the source of the £25, whether it be a mere title of ownership or claim, or an actual element of production such as real estate, is directly transferable or assumes a form in which it becomes transferable. Let us take the national debt and wages as illustrations.

The state has to annually pay its creditors a certain amount of interest for the capital borrowed from them. In this case, the creditor cannot recall his investment from his debtor, but can only sell his claim, or his title of ownership. The capital itself has been consumed, *i.e.*, expended by the state. It no longer exists. What the creditor of the state possesses is 1) the state's promissory note, amounting to, say, £100; 2) this promissory note gives the creditor a claim upon the annual revenue of the state, that is, the annual tax proceeds, for a certain amount, *e.g.*, £5 or 5%; 3) the creditor can sell this promissory note of £100 at his discretion to some other person. If the rate of interest is 5%, and the security given by the state is good, the owner A can sell this promissory note, as a rule, to B for £100; for it is the same to B whether he lends £100 at 5% annually, or whether he secures for himself by the payment of £100 an annual tribute from the state amounting to £5. But in all these cases, the capital, as whose offshoot (interest) state payments are considered, is illusory, fictitious capital. Not only that the amount loaned to the state no longer exists, but it was never intended that it be expended as capital, and only by investment as capital could it have been transformed into a self-preserving value. To the original creditor A, the share of annual taxes accruing to him represents interest on his capital, just as the share of the spendthrift's fortune accruing to the usurer appears to the latter, although in both cases the loaned amount was not invested as capital. The possibility of selling the state's promissory note represents for A the potential means of regaining his principal. As for B, his capital is invested, from his individual point of view, as interest-bearing capital. So far as the transaction is concerned, B has simply taken the place of A by buying the latter's claim on the state's revenue. No matter how often this transaction is repeated, the capital of the state debt remains purely fictitious, and, as soon as the promissory notes become unsaleable, the illusion of this capital disappears. Nevertheless, this fictitious capital has its own laws of motion, as we shall presently see.

We shall now consider labour-power in contrast to the capital of the national debt, where a negative quantity appears as capital—just as interest-bearing capital, in general, is the fountainhead of all manner of insane forms, so that debts, for instance, can appear to the banker as commodities. Wages are conceived here as interest, and therefore labour-power as the capital yielding this interest. For example, if the wage for one year amounts to £50 and the rate of interest is 5%, the annual labour-power is equal to a capital of £1,000. The insanity of the capitalist mode of conception reaches its climax here, for instead of explaining the expansion of capital on the basis of the exploitation of labour-power, the matter is reversed and the productivity of labour power is explained by attributing this mystical quality of interest-bearing capital to labour-power itself. In the second half of the 17th century, this used to be a favourite conception (for example, of Petty), but it is used even nowadays in all seriousness by some vulgar economists and more particularly by some German statisticians. Unfortunately two disagreeably frustrating facts mar this thoughtless conception. In the first place, the labourer must work in order to obtain this interest. In the second place, he cannot transform the capital-value of his labour-power into cash by transferring it. Rather, the annual value of his labour-power is equal to his average annual wage, and what he has to give the buyer in return through his labour is this same value plus a surplus-value, *i.e.*, the increment added by his labour. In a slave society, the labourer has a capital-value, namely, his purchase price. And when he is hired out, the hirer must pay, in the first place, the interest on this purchase price, and, in addition, replace the annual wear and tear on the capital.

The formation of a fictitious capital is called capitalisation. Every periodic income is capitalised by calculating it on the basis of the average rate of interest, as an income which would be realised by a capital loaned at this rate of interest. For example, if the annual income is £400 and the rate of interest 5%, then the £100 would represent the annual interest on £2,000, and the £2,000 is regarded as the capital-value of the legal title of ownership on the £100 annually. For the person who buys this title of ownership, the annual income of £100 represents indeed the interest on his capital invested at 5%. All connection with the actual expansion process of capital is thus completely lost, and the conception of capital as something with automatic self-expansion properties is thereby strengthened.

Even when the promissory note — the security — does not represent a purely fictitious capital, as it does in the case of state debts, the capital-value of such paper is nevertheless wholly illusory. We have previously seen in what manner the credit system creates associated capital. The paper serves as title of ownership which represents this capital. The stocks of railways, mines, navigation companies, and the like, represent actual capital, namely, the capital invested and functioning in such enterprises, or the amount of money advanced by the stockholders for the purpose of being used as capital in such enterprises. This does not preclude the possibility

that these may represent pure swindle. But this capital does not exist twice, once as the capital-value of titles of ownership (stocks) on the one hand and on the other hand as the actual capital invested, or to be invested, in those enterprises. It exists only in the latter form, and a share of stock is merely a title of ownership to a corresponding portion of the surplus-value to be realised by it. A may sell this title to B, and B may sell it to C. These transactions do not alter anything in the nature of the problem. A or B then has his title in the form of capital, but C has transformed his capital into a mere title of ownership to the anticipated surplus-value from the stock capital.

The independent movement of the value of these titles of ownership, not only of government bonds but also of stocks, adds weight to the illusion that they constitute real capital alongside of the capital or claim to which they may have title. For they become commodities, whose price has its own characteristic movements and is established in its own way. Their market-value is determined differently from their nominal value, without any change in the value (even though the expansion may change) of the actual capital. On the one hand, their market-value fluctuates with the amount and reliability of the proceeds to which they afford legal title. If the nominal value of a share of stock, that is, the invested sum originally represented by this share, is £100, and the enterprise pays 10% instead of 5%, then its market-value, everything else remaining equal, rises to £200, as long as the rate of interest is 5%, for when capitalised at 5%, it now represents a fictitious capital of £200. Whoever buys it for £200 receives a revenue of 5% on this investment of capital. The converse is true when the proceeds from the enterprise diminish. The market-value of this paper is in part speculative, since it is determined not only by the actual income, but also by the anticipated income, which is calculated in advance. But assuming the expansion of the actual capital as constant, or where no capital exists, as in the case of state debts, the annual income to be fixed by law and otherwise sufficiently secured, the price of these securities rises and falls inversely as the rate of interest. If the rate of interest rises from 5% to 10%, then securities guaranteeing an income of £5 will now represent a capital of only £50. Conversely, if the rate of interest falls to $2\frac{1}{2}\%$; the same securities will represent a capital of £200. Their value is always merely capitalised income, that is, the income calculated on the basis of a fictitious capital at the prevailing rate of interest. Therefore, when the money-market is tight these securities will fall in price for two reasons: first, because the rate of interest rises, and secondly, because they are thrown on the market in large quantities in order to convert them into cash. This drop in price takes place regardless of whether the income that this paper guarantees its owner is constant, as is the case with government bonds, or whether the expansion of the actual capital, which it represents, as in industrial enterprises, is possibly affected by disturbances in the reproduction process. In the latter event, there is only still another depreciation added to that mentioned above. As soon as the storm is over, this paper again rises to its former level, in so far as it does not represent a business

failure or swindle. Its depreciation in times of crisis serves as a potent means of centralising fortunes.^[2]

To the extent that the depreciation or increase in value of this paper is independent of the movement of value of the actual capital that it represents, the wealth of the nation is just as great before as after its depreciation or increase in value. "The public stocks and canal and railway shares had already by the 23rd of October, 1847, been depreciated in the aggregate to the amount of £114,752,225." (Morris, Governor of the Bank of England, testimony in the Report on Commercial Distress, 1847-48 [No. 3800].) Unless this depreciation reflected an actual stoppage of production and of traffic on canals and railways, or a suspension of already initiated enterprises, or squandering capital in positively worthless ventures, the nation did not grow one cent poorer by the bursting of this soap bubble of nominal money-capital.

All this paper actually represents nothing more than accumulated claims, or legal titles, to future production whose money or capital value represents either no capital at all, as in the case of state debts, or is regulated independently of the value of real capital which it represents.

In all countries based on capitalist production, there exists in this foreman enormous quantity of so-called interest-bearing capital, or moneyed capital. And by accumulation of money-capital nothing more, in the main, is connoted than an accumulation of these claims on production, an accumulation of the market-price, the illusory capital-value of these claims.

A part of the banker's capital is now invested in this so-called interest-bearing paper. This is itself a portion of the reserve capital, which does not perform any function in the actual business of banking. The most important portion of this paper consists of bills of exchange, that is, promises to pay made by industrial capitalists or merchants. For the money-lender these bills of exchange are interest-bearing, in other words, when he buys them, he deducts interest for the time which they still have to run. This is called discounting. It depends on the prevailing rate of interest, how much of a deduction is made from the sum represented by the bill of exchange.

Finally, the last part of the capital of a banker consists of his money reserve in gold and notes. The deposits, unless tied up by agreement for a certain time, are always at the disposal of the depositors. They are in a state of continual fluctuation. But while one depositor draws on his account, another deposits, so that the general average sum total of deposits fluctuates little during periods of normal business.

The reserve funds of the banks, in countries with developed capitalist production, always express on the average the quantity of money existing in the form of a

hoard, and a portion of this hoard in turn consists of paper, mere drafts upon gold, which have no value in themselves. The greater portion of banker's capital is, therefore, purely fictitious and consists of claims (bills of exchange), government securities (which represent spent capital), and stocks (drafts on future revenue). And it should not be forgotten that the money-value of the capital represented by this paper in the safes of the banker is itself fictitious, in so far as the paper consists of drafts on guaranteed revenue (*e.g.*, government securities), or titles of ownership to real capital (*e.g.*, stocks), and that this value is regulated differently from that of the real capital, which the paper represents at least in part; or, when it represents mere claims on revenue and no capital, the claim on the same revenue is expressed in continually changing fictitious money-capital. In addition to this, it must be noted that this fictitious banker's capital represents largely, not his own capital, but that of the public, which makes deposits with him, either interest-bearing or not.

Deposits are always made in money, in gold or notes, or in drafts upon these. With the exception of the reserve fund, which contracts or expands in accordance with the requirements of actual circulation, these deposits are in fact always in the hands of the industrial capitalists and merchants, on the one hand, whose bills of exchange are thereby discounted and who thus receive advances; on the other hand, they are in the hands of dealers in securities (exchange brokers), or in the hands of private parties who have sold their securities, or in the hands of the government (in the case of treasury notes and new loans). The deposits themselves play a double role. On the one hand, as we have just mentioned, they are loaned out as interest-bearing capital and are, therefore, not in the safes of the banks, but figure merely on their books as credits of the depositors. On the other hand, they function merely as such book entries, in so far as the mutual claims of the depositors are balanced by cheques on their deposits and can be written off against each other. In this connection, it is immaterial whether these deposits are entrusted to the same banker, who can thus balance the various accounts against each other, or whether this is done in different banks, which mutually exchange cheques and pay only the balances to one another.

With the development of interest-bearing capital and the credit system, all capital seems to double itself, and sometimes treble itself, by the various modes in which the same capital, or perhaps even the same claim on a debt, appears in different forms in different hands. The greater portion of this "money-capital" is purely fictitious. All the deposits, with the exception of the reserve fund, are merely claims on the banker, which, however, never exist as deposits. To the extent that they serve in clearing-house transactions, they perform the function of capital for the bankers-after the latter have loaned them out. They pay one another their mutual drafts upon the non-existing deposits by balancing their mutual accounts.

Adam Smith says with regard to the role played by capital in the loaning of money: *"Even in the moneyed interest, however, the money is, as it were, but the deed of assignment which conveys from one hand to another those capitals which the owners do not care to employ themselves. Those capitals may be greater in almost any proportion than the amount of the money, which serves as the instrument of their conveyance, the same pieces of money successively serving for many different loans, as well as for many different purchases. A, for example, lends to W £1,000, with which W immediately purchases of B £1,000 worth of goods. B, having no occasion for the money himself, lends the identical pieces to X, with which X immediately purchases of C another £1,000 worth of goods. C, in the same manner, and for the same reason, lends them to Y, who again purchases goods with them of D. In this manner the same pieces, either of coin or of paper, may, in the course of a few days, serve as the instrument of three different loans, and of three different purchases, each of which is, in value, equal to the whole amount of those pieces. What the three moneyed men, A, B and C, assign to the three borrowers, W, X and Y, is the power of making those purchases. In this power consist both the value and the use of the loans. The stock lent by the three moneyed men is equal to the value of the goods which can be purchased with it, and is three times greater than that of the money with which the purchases are made. Those loans, however, may be all perfectly well secured, the goods purchased by the different debtors being so employed, as, in due time, to bring back, with a profit, an equal value either of coin or of paper. And as the same pieces of money can thus serve as the instrument of different loans to three, or for the same reason, to thirty times their value, so they may likewise successively serve as the instrument of repayment."* ([*An Inquiry into the Nature and Causes of the Wealth of Nations*, Aberdeen, London, 1848, p. 236. — Ed.] Book II, Chap. IV.)

Since the same piece of money can be used for various purchases, corresponding to its velocity of circulation, it can similarly be used for various loans, since the purchases take it from one person to another, and a loan is but a transfer from one person to another without the mediation of a purchase. To every seller, money represents the transformed shape of his commodities. Nowadays, when every value is expressed as capital-value, it represents in the various loans various capitals in succession. This is simply another way of expressing the earlier statement that it can successively realise various commodity-values. At the same time it serves as a medium of circulation, in order to transfer the real capitals from person to person. In the case of loans, it does not pass from person to person as a medium of circulation. As long as it remains in the hands of the lender, it is in his hands not a medium of circulation, but the value existence of his capital. And in this form he transfers it when lending it to another. If A had lent the money to B, and B to C, without the mediation of purchases, the same money would not represent three capitals, but only one — a *single* capital-value. The number of capitals which it actually represents depends on the number of times that it functions as the value-form of various commodity-capitals.

The same thing that Adam Smith says about loans in general also applies to deposits, which are merely another name for the loans which the public makes to the bankers. The same pieces of money may serve as the instruments for any number of deposits.

"It is unquestionably true that the £1,000 which you deposit at A today may be reissued tomorrow, and form a deposit at B. The day after that, reissued from B, it may form a deposit at C... and so on to infinitude; and that the same £1,000 in money may, thus, by a succession of transfers, multiply itself into a sum of deposits absolutely indefinite. It is possible, therefore, that nine-tenths of all the deposits in the United Kingdom may have no existence beyond their record in the books of the bankers who are respectively accountable for them... Thus in Scotland, for instance, currency has never exceeded £3 million, the deposits in the banks are estimated at £27 million. Unless a run on the banks be made, the same £4,000 would, if sent back upon its travels, cancel with the same facility a sum equally indefinite. As the same £1,000, with which you cancel your debt to a tradesman today, may cancel his debt to the merchant tomorrow, the merchant's debt to the bank the day following, and so on without end; so the same £1,000 may pass from hand to hand, and bank to bank, and cancel any conceivable sum of deposits." (*The Currency Theory Reviewed*, pp. 62-63.)

Just as everything in this credit system is doubled and trebled and transformed into a mere phantom of the imagination, so it is with the "reserve fund," where one would at last hope to grasp on to something solid.

Let us listen once more to Mr. Morris, Governor of the Bank of England: "*The reserves of the private bankers are in the hands of the Bank of England in the shape of deposits... An export of gold acts exclusively, in the first instance, upon the reserve of the Bank of England; but it would also be acting upon the reserves of the bankers, inasmuch as it is a withdrawal of a portion of the reserves which they have in the Bank of England. It would be acting upon the reserves of all the bankers throughout the country.*" (Commercial Distress, 1847-48, Nos. 3639, 3642.)

Ultimately, then, the reserve funds actually merge with the reserve fund of the Bank of England. However, this reserve fund also has a double existence. The reserve fund of the banking department is equal to the surplus of notes which the Bank is authorised to issue over and above the notes in circulation. The legal maximum of the note issue is £14 million (for which no bullion reserve is required; it is the approximate amount owed by the state to the Bank) plus the amount of the Bank's supply of precious metal. If the supply of precious metal in the Bank amounts to £14 million, the Bank can thus issue £28 million in notes, and if £20 million of these are in circulation, the reserve fund of the banking department is £8 million. These £8 million's worth of notes are then legally the banker's capital at the disposal of the Bank, and at the same time the reserve fund for its deposits. Now, if

a drain of gold takes place, whereby the supply of precious metal in the Bank is reduced by £6 million — requiring the destruction of an equivalent number of notes — the reserve of the banking department would fall from £8 million to £2 million. On the one hand, the Bank would raise its rate of interest considerably; on the other hand, the banks having deposits with it, and the other depositors, would observe a large decrease in the reserve fund covering their own credits in the Bank. In 1847, the four largest stock banks of London threatened to call in their deposits, and thereby bankrupt the banking department, unless the Bank of England would secure a "government letter" suspending the Bank Act of 1844. In this way the banking department could fail, as in 1847, while any number of millions (e.g., 8 million in 1847) are held in its issue department to guarantee the convertibility of the circulating notes. But this is again illusory.

"That large portion (of deposits) for which the bankers themselves have no immediate demand passes into the hands of the bill-brokers, who give to the banker in return commercial bills already discounted by them for persons in London and in different parts of the country as a security for the sum advanced by the banker. The bill-broker is responsible to the banker for payment of this money at call; and such is the magnitude of these transactions, that Mr. Neave, the present Governor of the Bank [of England], stated in evidence, 'We know that one broker had 5 million, and we were led to believe that another had between 8 and 10 million; there was one with 4, another with 3 1/2, and a third with above 8. I speak of deposits with the brokers.'" (Report of Committee on Bank Acts, 1857-58, p. 5, Section 8.)

"The London bill-brokers carried on their enormous transactions without any cash reserve, relying on the run off of their bills falling due, or in extremity, on the power of obtaining advances from the Bank of England on the security of bills under discount." Ibid., p. VIII, Section 17. "Two bill-broking houses in London suspended payment in 1847; both afterwards resumed business. In 1857, both suspended again. The liabilities of one house in 1847 were, in round numbers, £2,683,000, with a capital of £180,000; the liabilities of the same house, in 1857, were £5,300,000, the capital probably not more than one-fourth of what it was in 1847. The liabilities of the other firm were between £3,000,000 and £4,000,000 at each period of stoppage, with a capital not exceeding £45,000." (Ibid., p. XXI, Section 52.)

Notes (selected)

1. "The labourer possesses capital-value, which is arrived at by considering the money-value or his annual wage as income from interest... Capitalising... the average daily wage at 4%, we obtain the average value of a male agricultural labourer to be: German Austria, 4,500 taler; Prussia, 4,500; England, 3,750; France, 2,000; inner Russia, 750 taler." (Von Reden, *Vergleichende Kulturstatistik*, Berlin, 1848, p. 434.)

3. [This doubling and trebling of capital has developed considerably further in recent years, for instance, through financial trusts, which already occupy a heading of their own in the report of the London Stock Exchange. A company is organised for the purchase of a certain class of interest-bearing of foreign government securities, English municipal or American public bonds, railway stocks, etc. The capital, for example, £2 million, is raised by stock subscriptions. The Board of Directors buys up the values in question or speculates more or less actively therein, and after deducting the expenses distributes among the stockholders the annual interest as dividends. Furthermore, some stock companies have adopted the custom of dividing the common stock into two classes, preferred and deferred. The preferred receive a fixed rate of interest, say, 5%, provided that the total profit permits it; if there is anything left after that, the deferred receive it. In this manner, the "solid" investment of capital in preferred shares is more or less separated from actual speculation — with deferred shares. Since a few large enterprises have been unwilling to adopt this new custom, the expedient has been resorted to of organising new companies which invest a million or several million pounds sterling in shares of the former companies and then issue new shares amounting to the nominal value of the purchased shares, but half of them are issued as preferred and the other half as deferred. In such cases the original shares are doubled, since they serve as a basis for a new issue of shares. — *F.E.*]

5. The suspension of the Bank Act of 1844 permits the Bank to issue any quantity of bank-notes regardless of the gold reserve backing in its possession; thus, to create an arbitrary quantity of fictitious paper money-capital, and to use it for the purpose of making loans to banks, exchange brokers, and through them to commerce. — [*F.E.*]

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